



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	SB0193	<b>Title:</b>	Revise agency liquor store laws
<b>Primary Sponsor:</b>	Tutvedt, Bruce	<b>Status:</b>	As Introduced

- |   |  |  |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns   |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$112,945	\$156,072	\$164,549	\$174,257
Other	\$1,200,663	\$1,530,009	\$1,664,015	\$1,781,688
<b>Revenue:</b>				
General Fund	\$1,535,601	\$1,992,840	\$2,151,985	\$2,298,449
State Special Revenue	\$112,945	\$156,072	\$164,549	\$174,257
Other	\$1,200,663	\$1,530,009	\$1,664,015	\$1,781,688
<b>Net Impact-General Fund Balance:</b>	<u>\$1,535,601</u>	<u>\$1,992,840</u>	<u>\$2,151,985</u>	<u>\$2,298,449</u>

**Description of fiscal impact:** SB 193 proposes two main amendments that affect state revenue from the sale of liquor. First, it increases the state markup on liquor from 40 percent to 43 percent. This affects revenue from both liquor profits and liquor tax. Second, it replaces the current method of calculating each agency liquor store's discount rate with an alternative method. These combined changes are estimated to increase total state revenue by \$1,648,545 in FY 2016, \$2,148,912 in FY 2017, \$2,316,534 in FY 2018, and \$2,472,706 in FY 2019.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

- The current markup for alcohol sold from the state liquor warehouse to agency liquor stores is as follows:

- a. 40 percent for any liquor other than fortified wine or sacramental wine and 20 percent on liquor produced by a distillery manufacturing 25,000 proof gallons nationwide annually (by administrative rule);
  - b. 51 percent for fortified wine (by administrative rule);
  - c. 20 percent for sacramental wine (16-1-106(18), MCA).
2. SB 193 increases the markup on liquor to 43 percent. This will have two effects on state revenue. First, it will increase state liquor profits due to the increased markup. Second, it will increase liquor and excise tax collections due to higher retail prices. These estimates are shown in the table below. Because there is no effective date, this bill takes effect October 1, 2015. Therefore, revenue for CY 2015 is shown for the three affected months. A total tax rate of 26 percent is assumed. The liquor excise and license tax growth rates from HJR2 and the Office of Budget and Program Planning are used to estimate future liquor sales.

	Liquor Profits			Liquor Taxes		
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
CY 2015	26,185,391	26,746,507	561,116	6,808,202	6,954,092	145,890
CY 2016	108,407,519	110,730,537	2,323,018	28,185,955	28,789,940	603,985
CY 2017	113,762,851	116,200,626	2,437,775	29,578,341	30,212,163	633,822
CY 2018	120,474,859	123,056,463	2,581,604	31,323,463	31,994,680	671,217
CY 2019	127,582,875	130,316,794	2,733,919	33,171,548	33,882,366	710,819

3. Currently there are three rates that make up the discount rate liquor stores are entitled to when purchasing liquor from the state. These are as follows:
  - a. Weighted average discount ratio;
  - b. Commission rate equal to 10% for small communities (less than 3,000 in population) and at competitive bidding for larger communities;
  - c. Commission based on sales volume in the previous fiscal year.
4. Under SB 193, these three rates are replaced with one rate that is based on the agency liquor store's prior calendar year liquor purchases. These rates are applied by calendar year.
5. The new rates consist of 8 brackets ranging from 16 percent for purchases less than \$250,000 to 12 percent for purchases of more than \$3.5 million. The department is required to annually adjust the dollar values of the brackets based on the CPI.
6. As an alternative, the rate may be established by competitive bidding which is guaranteed for three calendar years. This fiscal note assumes all current agency liquor stores are subject to the bracket rather than competitive bidding.
7. Agent discount estimates are shown in the table below. Because this bill takes effect October 1, 2015, the first calendar year that rates may be effective is CY 2016. The CY 2015 increase in the agent discounts is due to the increased markup and not a rate change. CPI estimates used are from IHS Global Insight.

Agent Discounts			
	<u>Current Law</u>	<u>Proposed Law</u>	<u>Difference</u>
CY 2015	4,158,260	4,247,365	89,106
CY 2016	17,215,195	18,080,907	865,712
CY 2017	18,065,626	18,900,689	835,063
CY 2018	19,131,498	19,987,785	856,287
CY 2019	20,260,256	21,156,115	895,859

8. The increase in liquor profits in assumption #2 is offset by the increase in agent discounts in assumption #7. The net increase to state revenue is shown in the table below.

Increase in Liquor Profit – Increase in Agent Discounts			
	<u>Posted Price</u>	<u>Agent Discounts</u>	<u>Difference</u>
CY 2015	561,116	89,106	472,010
CY 2016	2,323,018	865,712	1,457,306
CY 2017	2,437,775	835,063	1,602,712
CY 2018	2,581,604	856,287	1,725,317
CY 2019	2,733,919	895,859	1,838,060

9. This fiscal note used calendar years because this bill requires agency liquor stores to receive their commission rates based on the calendar year rather than the fiscal year. Averages of calendar years are used to calculate the fiscal impact by fiscal year (a calendar year is split between two fiscal years).
10. Total increase in tax revenue is estimated to be \$447,882 in FY 2016, \$618,903 in FY 2017, \$652,519 in FY 2018, and \$691,018 in FY 2019.
11. There are two sources of liquor tax with different distributions. The liquor excise tax (tax rate of 16 percent for the majority of sales) accounts for 61.5 percent of the total liquor tax and the liquor license tax (tax rate of 10 percent for the majority of sales) accounts for 38.5 percent of the total liquor tax. The liquor excise tax is distributed to the general fund. The liquor license tax is distributed 34.5 percent to the general fund and 65.5 percent to the Department of Public Health and Human Services (DPHHS). Therefore, the portion of tax revenue from assumption #10 that is distributed to DPHHS is \$112,945 in FY 2016, \$156,072 in FY 2017, \$164,549 in FY 2018, and \$174,257 in FY 2019.
12. Total increase in liquor profits is estimated to be \$1,200,663 in FY 2016, \$1,530,009 in FY 2017, \$1,664,015 in FY 2018, and \$1,781,688 in FY 2019. Liquor profits are initially deposited in the Liquor Enterprise Fund and net profits are transferred to the general fund.
13. GenTax changes are necessary to accommodate changes to the store discount rates. These changes will have minimal impact on the department and will be absorbed at part of routine maintenance.

#### **Department of Public Health and Human Services**

14. The state special revenue expenditures equal the portion of the estimated state special revenues to be distributed to DPHHS as calculated based on the assumptions contained in HJR 2 for FY 16 and FY 17, and OBPP growth rates of revenues for FY 18 and FY 19.
15. Expenditures would be for the prevention and treatment of substance abuse disorders under MCA 16-1-404.

	<b><u>FY 2016 Difference</u></b>	<b><u>FY 2017 Difference</u></b>	<b><u>FY 2018 Difference</u></b>	<b><u>FY 2019 Difference</u></b>
<b><u>Fiscal Impact:</u></b>				
<b><u>Expenditures:</u></b>				
Benefits	\$112,945	\$156,072	\$164,549	\$174,257
Transfers	\$1,200,663	\$1,530,009	\$1,664,015	\$1,781,688
<b>TOTAL Expenditures</b>	<b>\$1,313,608</b>	<b>\$1,686,081</b>	<b>\$1,828,564</b>	<b>\$1,955,945</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$112,945	\$156,072	\$164,549	\$174,257
Other	\$1,200,663	\$1,530,009	\$1,664,015	\$1,781,688
<b>TOTAL Funding of Exp.</b>	<b>\$1,313,608</b>	<b>\$1,686,081</b>	<b>\$1,828,564</b>	<b>\$1,955,945</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$1,535,601	\$1,992,840	\$2,151,985	\$2,298,449
State Special Revenue (02)	\$112,945	\$156,072	\$164,549	\$174,257
Other	\$1,200,663	\$1,530,009	\$1,664,015	\$1,781,688
<b>TOTAL Revenues</b>	<b>\$2,849,209</b>	<b>\$3,678,921</b>	<b>\$3,980,549</b>	<b>\$4,254,394</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$1,535,601	\$1,992,840	\$2,151,985	\$2,298,449
State Special Revenue (02)	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0

**Technical Notes:**

1. To avoid confusion, it may be necessary to add clarification on whether each store's total liquor purchases are calculated off of the posted price or the price after the discount (16-2-101(4), MCA). This fiscal note assumes the posted price.
2. An amendment to 16-2-101(4)(a), MCA may clarify that agency liquor stores receive commissions based on their *prior* calendar year liquor purchases.
3. 16-1-106(18), MCA states that sacramental wine currently has a markup of 20 percent. It is unclear if the intent is to include sacramental wine in the 43 percent markup or if the intent is to leave the markup of 20 percent.
4. This bill requires that by February 1, the department must adjust the dollar value of the brackets and notify agency liquor stores of their commission rate to be applied during the current year. This creates potential timing problems for the state and agency liquor stores.

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*Sponsor's Initials*\_\_\_\_\_  
*Date*\_\_\_\_\_  
*Budget Director's Initials*\_\_\_\_\_  
*Date*